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Japan's Economy Slows In The Third Quarter

Faltering exports and sluggish domestic demand slowed the pace of Japan's economy in the July-September quarter. Gross national product grew at an inflation-adjusted annual rate of only 2.6 percent, compared to 5.8 percent in the preceding three months (see table). The 3.9 percent annual growth rate recorded during the April-September period is below the government's 4.6 percent growth forecast for FY 1985.

Japan's Real Gross National Product at Constant (1980) Prices

(in billions of yen, seasonally adjusted, quarterly totals and rates of growth at annual rates)

	FY 1983	FY 1984	October-December 1984	January-March 1985	April-June 1985	July-September 1985
Gross National Product	Y267,782.0	Y281,102.2	Y284,215.8	Y285,425.7	Y289,447.6	Y291,298.9
	(3.7%)	(5.0%)	(8.9%)	(1.7%)	(5.8%)	(2.6%)
Personal Consumption Spending	155,008.7	159,100.7	159,240.9	161,106.4	161,900.4	162,753.3
	(3.1%)	(2.6%)	(2.2%)	(4.8%)	(2.0%)	(2.1%)
Private Residential Construction	13,635.6	13,688.4	13,742.5	13,913.9	14,227.9	13,892.6
	(-9.0%)	(0.4%)	(3.5%)	(5.1%)	(9.3%)	(-9.1%)
Private Fixed Nonresidential Investment	42,672.2	47,342.6	48,452.9	48,574.5	51,124.5	52,770.0
	(4.9%)	(10.9%)	(17.1%)	(1.0%)	(22.7%)	(13.5%)
Change in Business Inventories	988.8	1,839.1	1,950.7	2,112.0	1,825.3	1,384.0
	(-16.9%)	(86.0%)	(-1.3%)	(37.4%)	(-44.2%)	(-66.9%)
Government Current Expenditures	26,050.2	26,654.9	26,675.0	26,979.1	27,081.5	27,190.4
	(3.5%)	(2.3%)	(2.1%)	(4.6%)	(1.5%)	(1.6%)
Government Fixed Investment	22,848.1	22,159.9	22,014.9	21,615.5	19,954.0	20,456.1
	(-2.2%)	(-3.0%)	(-8.5%)	(-7.1%)	(-27.4%)	(10.5%)
Change in Government Inventories	-227.9	159.1	42.6	27.9	77.6	515.6
	(*)	(*)	(*)	(*)	(*)	(*)
Net External Sector	6,806.2	10,157.3	15,096.4	11,096.4	15,256.4	12,336.9
	(135.8%)	(49.2%)	(408.5%)	(-29.2%)	(103.7%)	(-25.0%)
Exports of Goods and Services and Factor Income Received	46,313.9	53,609.8	55,256.5	54,833.7	57,176.9	55,149.3
	(8.7%)	(15.8%)	(20.9%)	(-3.0%)	(18.2%)	(-13.4%)
Imports of Goods and Services and Factor Income Paid	39,507.7	43,452.4	43,160.1	43,737.3	43,920.5	42,812.4
	(-0.5%)	(10.0%)	(-12.6%)	(5.5%)	(1.7%)	(-9.7%)

*Cannot be calculated or meaningless.

Source: Economic Planning Agency

In contrast to the 18.2 percent gain in the April-June quarter, real exports in the third quarter fell 13.4 percent, as deliveries to Japan's two largest markets, the United States and China, were flat. Furthermore, shipments to Southeast Asia, a region that has suffered from slower U.S. growth, were also off. If both exports and imports had remained at their second-quarter levels, real economic growth in the July-September period would have been 3.9 percent instead of 2.6 percent.

At the same time, private plant and equipment investment, which together with exports has led the current expansion, also slowed. The annual rate of investment growth fell from 22.7 percent in the second quarter to 13.5 percent in the third quarter. Investment growth in the second quarter, however, was artificially high, since it included for the first time investment by Nippon Telegraph and Telephone Corp. and Japan Tobacco Inc., both of which were privatized in April 1985.

Personal consumption spending remained sluggish, increasing at an annual rate of 2.1 percent. Stable prices, higher spring wage increases and larger summer bonuses had been expected to lead to faster growth in consumer spending. The increase in workers' income, however, has been more modest as a result of less overtime and a slower increase in employment. Moreover, residential housing construction declined sharply in the July-September period despite low interest rates on housing loans and stable land prices.

Government spending increased at a 9.2 percent annual rate in the third quarter following the sharp decline during the preceding three months. Spending was led by government fixed investment, which increased for the first time since the second quarter of 1984.

The slowdown makes it likely that the government forecast of 4.6 percent growth will not be achieved. Economic Planning Agency officials expect the high value of the yen to further soften exports during the October-December period. Moreover, a decline in corporate profits makes an increase in business investment unlikely. The deceleration of growth has also led many forecasters to lower their growth predictions for the coming year. Last week, Ippei Kaneko, EPA's director general, predicted that Japan will not be able to attain a real growth rate of 4 percent in FY 1986, while the Organization for Economic Cooperation and Development forecast a 3.5 percent growth rate for calendar 1986.

The third-quarter statistics were the first GNP figures to be calculated using 1980 as the base year. Use of the new base led to a downward revision of real growth in FY 1984 from 5.7 percent to 5.0 percent. Growth rates in earlier years were revised downward by smaller amounts to 3.3 percent in FY 1981, 3.2 percent in FY 1982 and 3.7 percent in FY 1983.

Randall S. Jones

Mixed Signals On Course Of Japanese Fiscal Policy

Despite slowing economic growth (see article in this issue), the Japanese government remains reluctant to resort to fiscal stimulus. The draft